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Hong Kong

Market Development Reports

Hong Kong Chocolate and Sugar Confectionery

Market Brief

1999

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Report Highlights:

U.S. products lead the mass consumer market for chocolate, whereas European products dominate the premium market. Recently, premium chocolates are being locally produced. Snack foods have displaced market demand for sugar confectionary. U.S. product dominate the chewing gum market, including sugar-free products.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Hong Kong [HK1], HK

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INTRODUCTION

Methodology

The goal of this report is to provide a brief assessment of the chocolate and sugar confectionery market in Hong Kong as well as future developments.

For Hong Kong dollar currency figures, the exchange rate is US\$1 = HK\$7.78.

Main Findings

Hong Kong is predominately a chocolate market. The chocolate, sugar confectionery, and chewing gum markets in Hong Kong are in decline in terms of volumes consumed. In value terms the market remain stagnant, except in the chewing gum sector.

Chocolate

The market is mature with a wide variety of quality/pricing of products and is fragmented in terms of brands. U.S. products lead the mass consumer market, whereas European products dominate the premium market. More recent developments have been at the premium end of the Chocolate market with a number of local producers of specialty chocolate. All three segments are mature and highly competitive.

Sugar Confectionery

This market is declining with a fragmented competition base. Snack foods are a key contributing factor displacing market demand.

Chewing Gum

US products dominate this sector and, in recent years, the introduction of sugar free gum has been quickly accepted by a more health conscious society. US suppliers also dominate the sugar free segment.

Market Access Statement

LABELING REQUIREMENTS

The Food and Drugs (Composition and Labeling) Regulations require food manufacturers and packers to label their products in a prescribed, uniform and legible manner. The following information is required to be marked on the label of all prepackaged food except for 'exempted items' as provided in the Regulations. Prepackaged food means any food packaged in such a way that the contents cannot be altered without opening or changing packaging, and the food is ready for presentation to the ultimate consumer or a catering establishment as a single food item.

1 Name of the Food

- a) Prepackaged food shall be legibly marked or labeled with its name or designation.
- b) The food name should not be false, misleading or deceptive but should serve to make the nature and type of food known to the purchasers.

2 List of Ingredients

- a) Preceded by an appropriate heading consisting of the words “ingredients”, “composition”, “contents” or words of similar meaning, the ingredients should be listed in descending order of weight or volume determined when the food was packaged.
- b) If an additive constitutes one of the ingredients of a food, it should be listed by its specific name or by the appropriate category (e.g. Preservative, artificial sweetener, etc.) Or by both name and category.

3) Indication of “best before” or “use by” date.

Prepackaged food shall be legibly marked or labeled with the appropriate durability indication as follows:

- a) a “best before” (in Chinese characters as well) date; and
- b) in the case of a prepackaged food which, from a microbiological point of view, is highly perishable and is likely, after a short period, to constitute an immediate danger to human health, a “use by” (in Chinese characters as well) date.

The words “use by” and “best before” in English lettering and Chinese characters followed by the date up to which specific properties of the food can be retained, to indicate the shelf life of the food. The “use by” or “best before” date should be shown either in Arabic numerals in the order of day, month and year (or month and year in certain circumstances) or in both the English and Chinese languages. For specific details refer to the Regulation.

Home Page: <http://www.info.gov/justice>

4) Statement of Special Conditions for Storage or Instruction for Use

If special conditions are required for storage to retain the quality, or special instructions are needed for prepackaged food use, a statement should be legibly marked on the label.

5) Name and Address of Manufacturer or Packer

Prepackaged food shall be legibly marked or labeled with the full name and address of the manufacturer or packer, except under the following situations:

- a) The package is marked with an indication of the country of origin and the name and address of the distributor or brand owner in Hong Kong, and the address of the manufacturer or packer of the food in its country of origin has been submitted in writing

to the Director of Health.

- b) The package is marked or labeled with an indication of its country of origin and with a code marking identifying the manufacturer or packer in that country and particulars of the code marking and of the manufacturer have been submitted in writing to the Director of Health.

- 6) Count, Weight or Volume

The food label should include the numerical count or net weight or net volume of the food.

- 7) Appropriate Language

The marking or labeling of prepackaged food can be in either the English or the Chinese language or in both languages. If both the English and Chinese languages are used in the labeling or marking of prepackaged food, the name of the food and the list of ingredients shall appear in both languages.

Exempt from labeling regulations: Individually wrapped confectionery products and preserved fruits intended for sale as a single item; Prepackaged foods for sale to catering establishment for immediate consumption and those containing more than 1.2 percent alcohol by volume.

Under the amended Food and Drugs (Composition and Labeling) Regulations, it is illegal to sell any food after its “use by” date. Furthermore, any person who, other than the food manufacturer or packer or without their written authorization, removes or obliterates any information on the label required under these regulations also commits an illegal act.

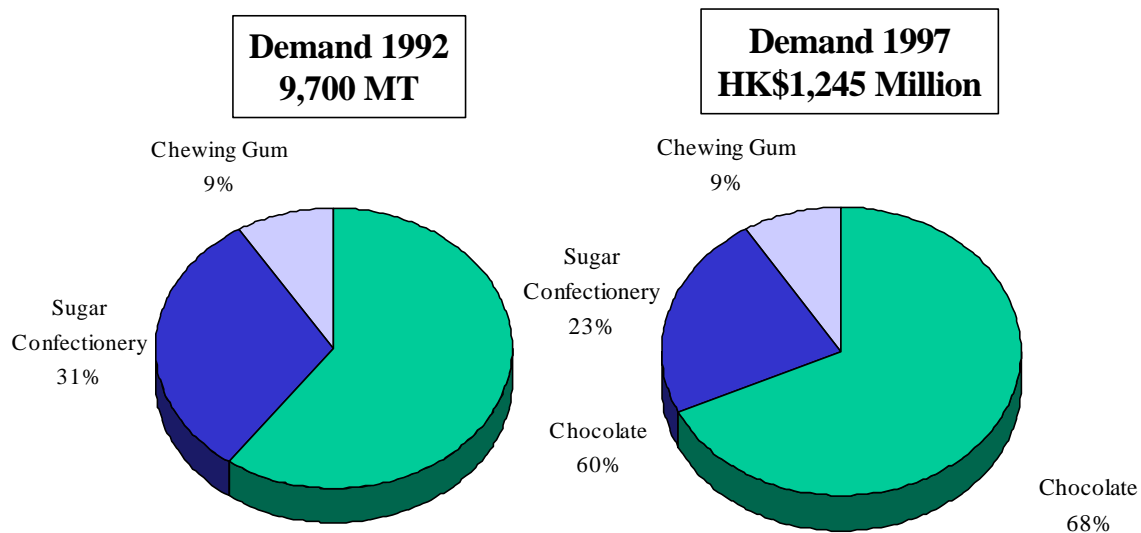
IMPORT DUTIES

Hong Kong is a free port which does not impose any import tariffs on products with the exception of four dutiable products: liquor, tobacco products, hydrocarbon oils and methyl alcohol. Local importers have to apply for a licence from the Hong Kong Customs and Excise Department for the importation of dutiable commodities. In addition, a licenced importer has to apply for a permit for each and every consignment. The current duties are as follows:

Cigarettes per 1000 sticks	US\$98.45
Cigars per kg	US\$126.74
Beer & liquor with less than 30% alcohol	: 30%
Liquor with more than 30% alcohol	: 100%
All wines	: 60%

Market Overview

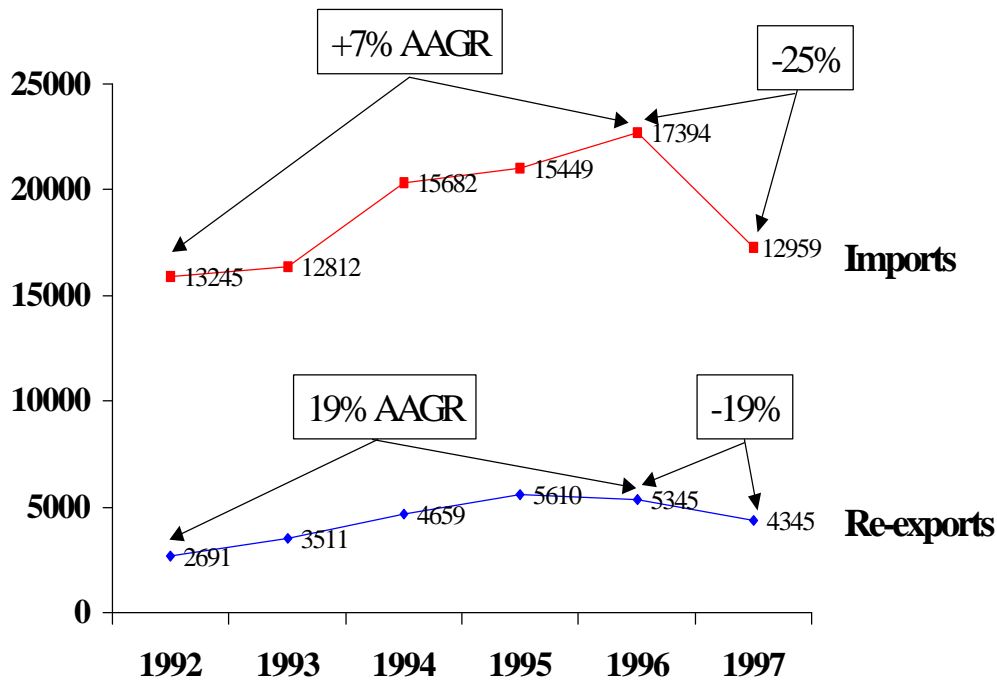
Chocolate is the most popular item, with sugar confectionery and chewing gum significantly smaller in value terms. Both chocolate and chewing gum continue to grow in value terms, whereas sugar confectionery is declining slowly in both volume and value.



Source: Eastern Strategic Consulting Ltd.

CHOCOLATE

Imports



Chocolate imports are significant into Hong Kong, but the majority is re-exported to other destinations.

The re-export figures are also under-estimated based on government statistics. This is possibly due to traders under-declaring volumes to avoid tariffs and other taxes for re-export destinations.

In terms of growth, imports increased steadily from 1992 to 1996. In 1997 import demand declined due to:

- C Weakened economic condition in Hong Kong.
- C China market slow down
- C Local capacity in China
- C Chocolate import into China by-passing Hong Kong

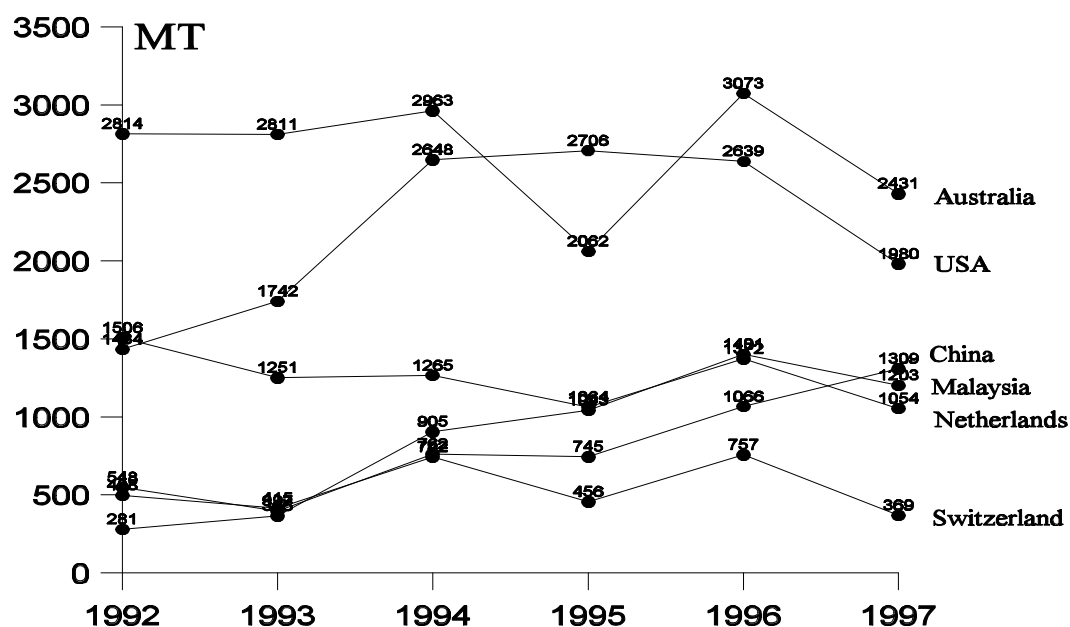
Source: Hong Kong Census and Statistics Department (HKCSD)

CHOCOLATE

Imports By Country Source

Australia and the USA are major sources of chocolate, with a dominant presence in the market and numerous popular brands. Australia is a major supplier of American brands from Effem Foods / Mars Corporation and also from United Kingdom based Cadbury with operations in Tasmania, Australia.

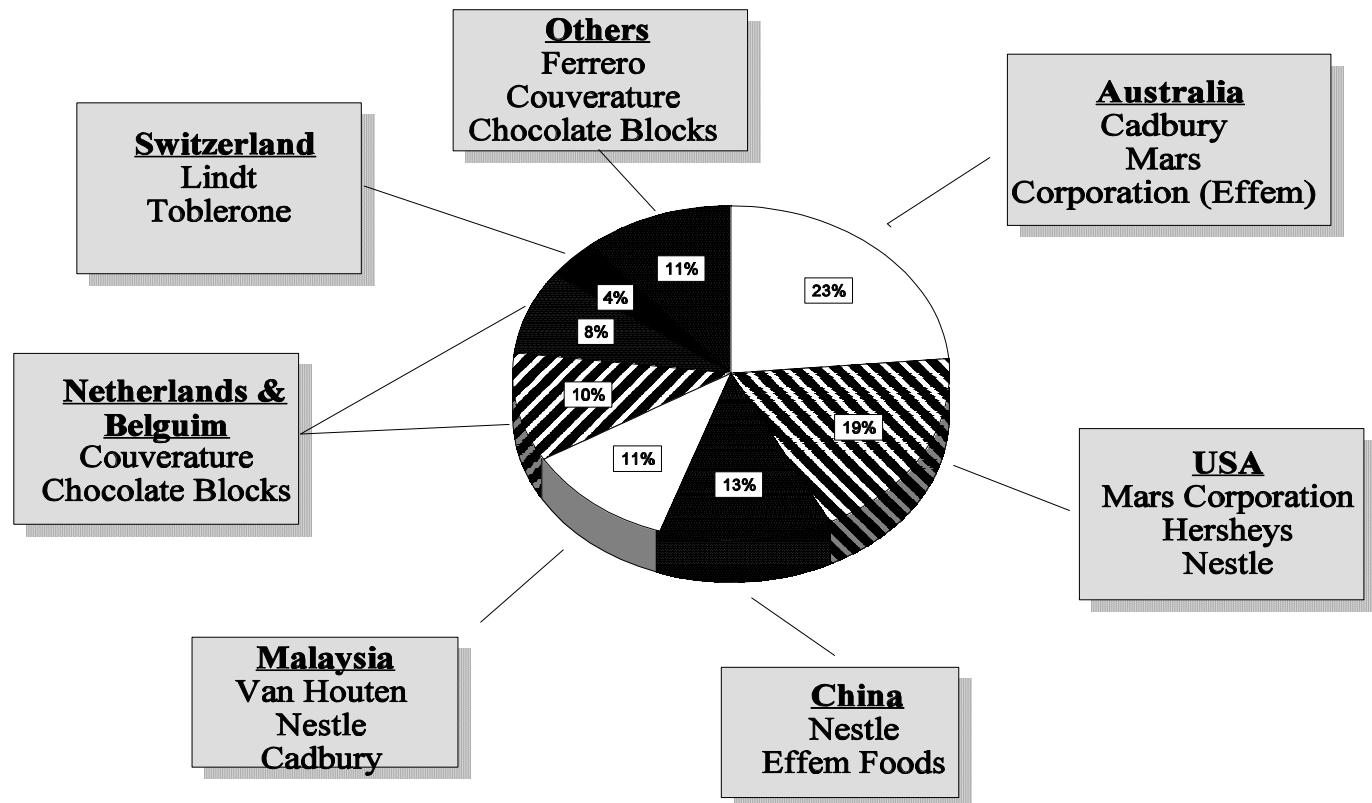
C China is emerging mostly due to products from the Effem Foods factory in Beijing and Nestle's Kit Kat factory in Tianjin.



Source: HKCSD

CHOCOLATE

Imports By Country Source



Source: HKCSD

CHOCOLATE

Local Demand

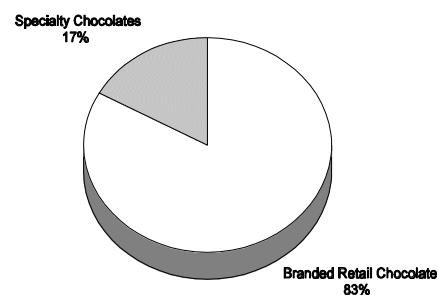
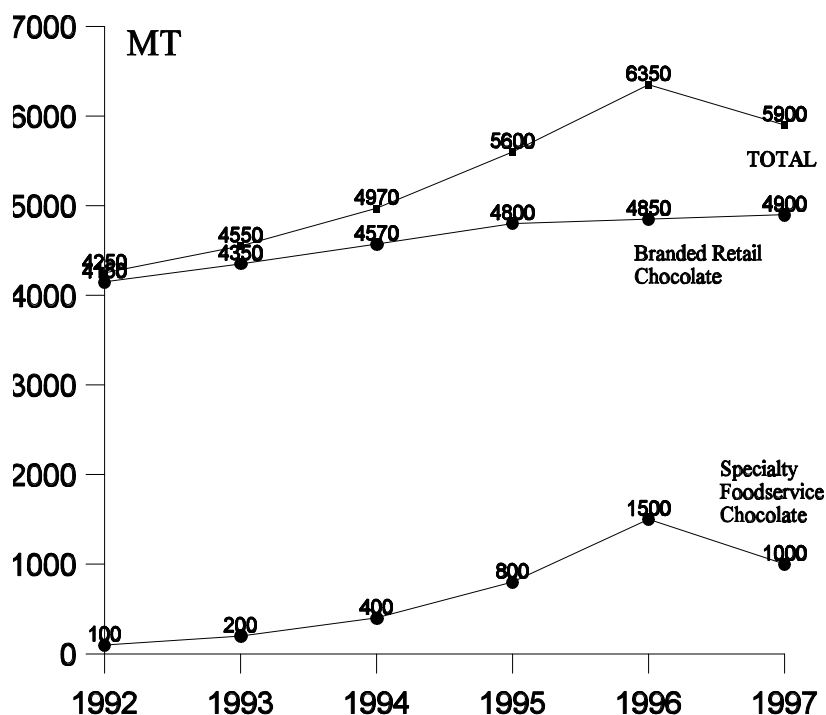
Branded Retail Chocolate: Grocery & Convenience Store brands such as M&Ms, Crunch, Toblerone, etc. Growth is flat and declining in volume and value is stagnant, i.e. -3% AAGR up to 1997.

Specialty Chocolates: Premium quality priced for food service (5 star hotels) and as gifts (through specialty store outlets).

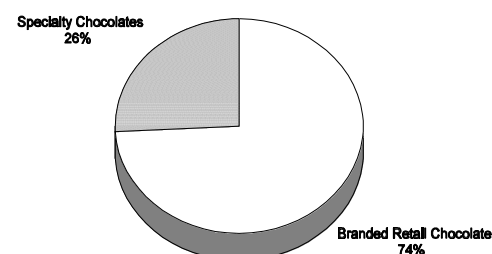
Industrial: Chocolate melted down & used for chocolate coatings for ice cream confectionery.

Local chocolate demand remains flat, with current marginal growth of 1% AAGR.

The market remains saturated and is highly competitive with a wide variety of brands available from a wide variety of suppliers.



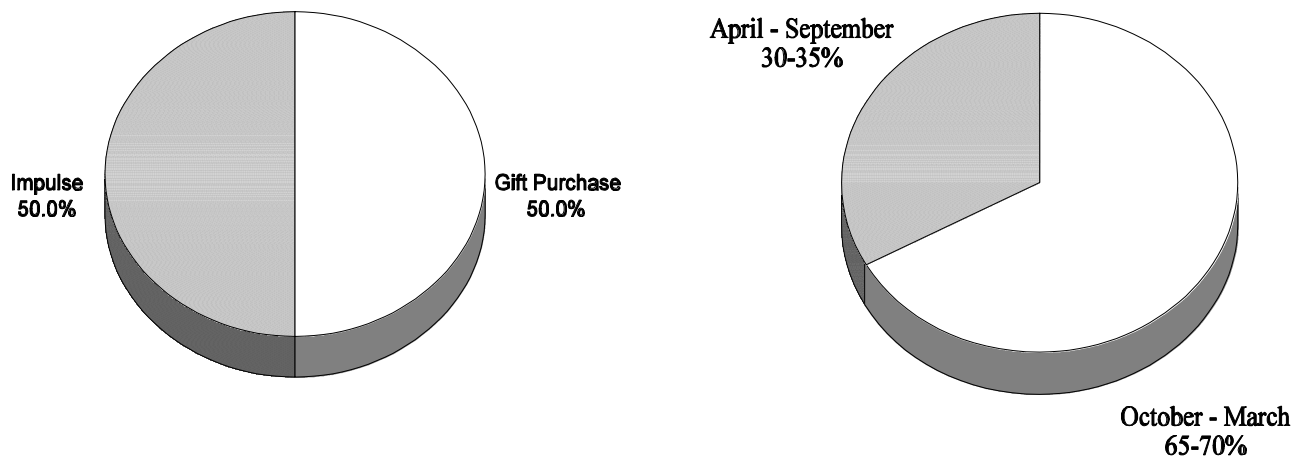
**5,900 MT
Demand 1997
HK\$880 Million**



*Source: Eastern
Strategic
Consulting Ltd.*

CHOCOLATE

Seasonality



There is a significant seasonality effect with a majority of sales during the cooler months of the year.

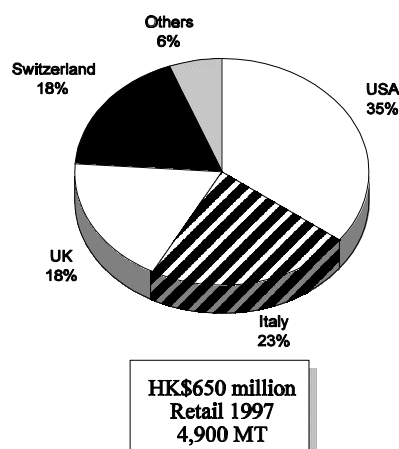
It is also during the cooler months of the year that chocolate becomes a popular gift during festive times, i.e. Christmas, New Years, Chinese New Year, Valentine's Day, etc. Note that the gift premium market segment is in a state of gradual decline.

Source: Eastern Strategic Consulting Ltd.

CHOCOLATE

Corporate Country Of Origin Retail Market Share

Chocolate supply is dominated by the multinationals with multiple supply bases in Asia and globally. USA supply has a leading share, but Italy (Ferrero) is a major supplier in terms of value. Cadbury is also a major supplier.

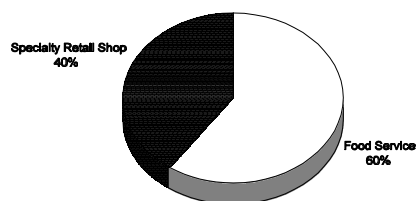


Market Share Based on Value 1997 (%)	Corporate Country Of Origin	Brands	Production Location
35%	USA	M&Ms Maltesers Dove Snickers Mars Twix Hersheys Toblerone	USA Australia China
23%	Italy	Ferrero Rafaella Kinder	Italy
18%	United Kingdom	Cadbury	United Kingdom Australia Malaysia
18%	Switzerland	Lindt Kit Kat Smarties Crunch	Switzerland China Malaysia United Kingdom Italy
6%	Other	Various Brands	Various Countries
100%	Total	All	All

CHOCOLATE

Market Positioning

Segment	Brands	Specialty Chocolate	
Premium	Ferrero Lindt	C Lucullus C Macys C Temptation C Gourmet	C Mandarin Hotel C Grand Hyatt Hotel C Shangri-la Hotel C Sheraton Hotel
High End	Toblerone	-	
Medium End	Cadbury M&Ms / Maltesers / Mars Snickers / Twix / Dove Hersheys Kit Kat / Smarties / Crunch	-	
Low End	Insignificant	-	



- C The Hong Kong market is predominantly medium to high end in terms of price and quality.
- C European brands dominate the high and premium end segments with Ferrero and Lindt dominating. Toblerone of Jacob Suchard originally European-owned is under Kraft Foods of the USA.
- C American and United Kingdom brands dominate the medium end of the market.

CHOCOLATE

Specialty / Premium Chocolate Environment

In Hong Kong there is a unique aspect to the market with specialty chocolate producers catering to the high end of the food service and catering sectors. The market supply is estimated at HK\$230 million (US\$33 million) with 20% expected to Japan.

Lucullus foods is a market leader in Hong Kong, but also regionally supplies significant volumes to Japan and other parts of Asia. Macy's is a similar competitor. Both companies have their own retail outlets as well. More recent local producers are Temptation and Gourmet House.

The hotels produce chocolate for dessert buffets, hotel catering, complementary gifts for guests, and for sale from retail outlets located within the hotels.

A number of five star hotels also are active in specialty chocolate production for in-house guest supply and sale as well as competing against Lucullus and Macy's in the general market. The Mandarin Hotel is the largest of the hotel producers.

An American chain, See's is also actively exporting specialty chocolates from the USA into Hong Kong for retailing and catering.

Supplier	Supply	Food Service	Retail	Export
Lucullus	Local	#	# (6 retail shops)	#
Macy's Candies Ltd.	Local	#	• (4 retail shops)	•
See's	Import	℄	• (3 retail shops)	-
Mandarin / Grand Hyatt / Shangri-La / Sheraton / Others	Local	#	℄	℄
Temptation	Local	#	℄	-
Gourmet House	Local	#	℄	-

Significant • Moderate • Minor

CHOCOLATE**Distribution**

Distribution is primarily to supermarkets and convenience stores which comprise the majority of Hong Kong retailing.

Distribution	Chocolate Products
Inchcape JDH	Ferrero
Siber Hegner	Lindt
Edward Keller	Toblerone
East Asiatic Co. (EAC)	Mars/Effem Foods
Four Seas Mercantile	Cadbury
Connell	Hersheys
Nestle	Inhouse

CHOCOLATE**Retail Brands, Pricing And Packaging**

Company	Brands	Chocolate Type	Country Of Supply	Packaging	Weight (g)	Price (HK\$)
Hersheys	Kisses	Chocolate and Almond	USA	Bag	-	-
	Extra Creamy	Milk Chocolate	USA	Bar	-	-
	Twin wafer	Chocolate & Wafers	USA	Bar	-	-
Mars	Mars	Caramel & Chocolate	Australia	Bar	60g	5.3
	Snickers	Peanut, Nougat & Chocolate		Bar	50g, 60g	5.3-6.8
		Peanut		Bag of mini bars	282g	27.3
	M&Ms	Candy Coated Chocolate or Peanut/Chocolate		Sachet	50g 200g	5.30-6.30 14.80
				Box	38g 104g	4.50-5.60 13.0
	Maltesers	Chocolate covered Malt Extract		Sachet	40g 100g	13.0 4.50
	Twix	Chocolate & Caramel		Sticks	40g 100g	4.50 10.50
	Dove	Milk Chocolate Double Raison & Nut Hazel Nut Dark Chocolate	China (Beijing)	Bar		5.8

CHOCOLATE**Retail Brands, Pricing And Packaging**

Company	Brands	Chocolate Type	Country Of Supply	Packaging	Weight (g)	Price (HK\$)
Nestle	Crunch	Chocolate & Rice Crispies	USA	Bar	44g 78g	4.10-6.20 8.20-9.90
	Buncha Crunch	Chocolate & Rice Crispies	USA	Bag of clusters	39.6g	6.4
	Crunch Perugina	Chocolate & Rice Crispies	Italy	Bar	33g	5.70-6.10
	Milo Bar	Chocolate & Malt Extract	Australia	Bar	40g	5.1
	Milo Nuggets	Chocolate & Malt Extract	Malaysia	Clusters	40g 72g	6.80 9.60
	Kit Kat	Chocolate & Wafers	China	Bar	17g	2.50-4.0
				Bar	35g	5.20-6.30
				Twin pack	70g	8.50-10.80
				Bag	204g	27.5
	Smarties	Sugar Coated Chocolate	United Kingdom	Canister	36.5g	5.40-6.50
				Canister	170g	22.3
				Bag	150g	23.5

CHOCOLATE**Retail Brands, Pricing And Packaging**

Company	Brands	Chocolate Type	Country Of Supply	Packaging	Weight (g)	Price (HK\$)
Cadbury	Picnic	Chocolate, Caramel & Wafer	Australia	Bar	45g	4.9
			United Kingdom	Bars in bag	250g	29.7
	Crunchie	Chocolate and Sugar	United Kingdom	Bar	40g	5.5
	Double Decker	Chocolate	United Kingdom	Bar	51g	5.5
	Time Out	Chocolate	Australia	Bar	40g	5.4
	Malt Rings	Chocolate & Malt Extract	Malaysia	Bag	35g	5.9
	Chocolate Eggs	Chocolate & Filling		Box/bag	85g	11.9
	Dairy Milk	Milk Chocolate	Australia	Bar	55g	6.50-7.50
		Chocolate, Fruit & Nut		Bar	100g	10.90-14.30
		Chocolate & Roasted Almond		Bag	235g	27.9
Andes	Mints	Chocolate & Mint Center	USA	Box	132 g	17.1
Tudor Gold	Tudor Gold	Chocolate, Chocolate/Cashews or Chocolate/Almond	Malaysia	Bar	50 g	5.5
				Bar	100 g	9.8

CHOCOLATE**Retail Brands, Pricing And Packaging**

Company	Brands	Chocolate Type	Country Of Supply	Packaging	Weight (g)	Price (HK\$)
Ferrero	Rocher	Chocolate with soft chocolate centre	Italy	Cluster Ball	-	5.8
					-	9.9
					-	35.9
					-	73
	Rafaello	White Chocolate		Cluster Ball	-	5.8
	Mon Cheri	Chocolate		Bar	40g	4.90-6.60
	Kinder	Chocolate wafer with milk cream filling		Bar	50g 100g	5.50-6.00 10.50
	Kinder Surprise	“		Box	60g	16.30-18.50
	Bueno	Chocolate		Bar	40g	5.70-6.60
Lindt	Lindt	Chocolate	Switzerland	Box	355g	94
		White Chocolate		Tin	125g	39.9
Merci	Merci	Chocolate	Germany	Box	250g	38.4
Storck	Toffifee	Chocolate & Toffee	Germany	Box	125g	14.5
Van Guadee	Van Guadee	Chocolate	Holland	Bar	72g	9.6
	Van Guadee	Chocolate		Bar	100g	8.9

CHOCOLATE**Specialty Chocolates Pricing And Packaging**

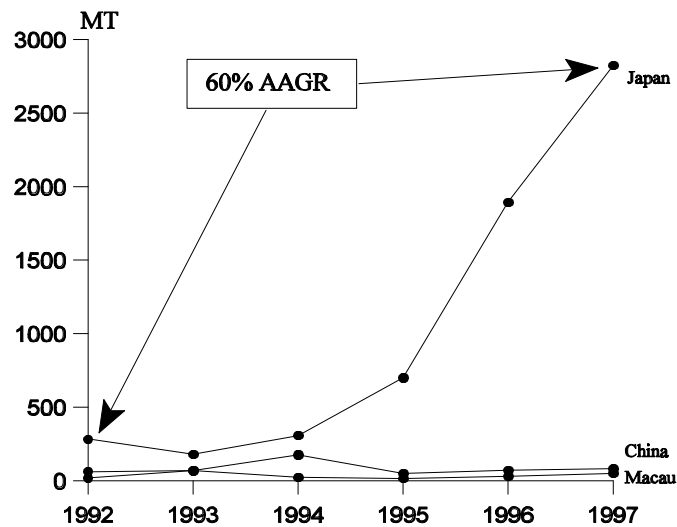
Chocolate Form	Weight (g)	No. of pieces	Price (HK\$)
Moulded	45g	1	16.00-17.50
	75g	1	24
	100g	1	19.00-25.00
	250g	1	32.00-38.00
Gift Box	240g	1	85
	350g	1	110
	400g	1	89-120
Specialty	1kg	200 pcs	198
	8g	1	2
	60g	1	17.5

CHOCOLATE

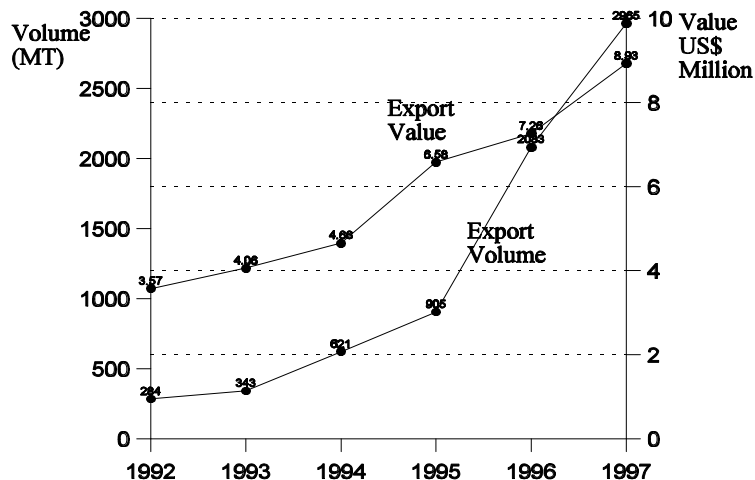
Exports

Export supply of chocolate, specifically from the specialty producers has grown explosively at a rate of 60% AAGR since 1992 and 15% AAGR in value terms. Japan is a primary purchaser with numerous corporate accounts such as the Duty Free shops, hotels corporate accounts etc. It should be noted that the export volume is significantly higher than local Hong Kong production. Therefore, it probably contains re-exported chocolate, items accompanying chocolate shipments but declared as chocolate, and food items containing small amounts of chocolate and declared as chocolate.

Chocolate Confectionery Exports Volume by Country 1992-1997



Chocolate Confectionery Exports Volume (MT) & Value (US\$ Million) 1992-1997



Source: HKCSD

SUGAR CONFECTIONERY

Imports

Though imported candy dominates Hong Kong consumption, and import statistics indicate a large market for sugar confectionery, the reality is that only a small portion is consumed in Hong Kong. The re-export volumes are under declared in order for traders to reduce the value of re-exports (Mainly to China) to significantly reduce import tariffs and value added tax. Therefore, re-export volumes should be increased by 70% to 80%.

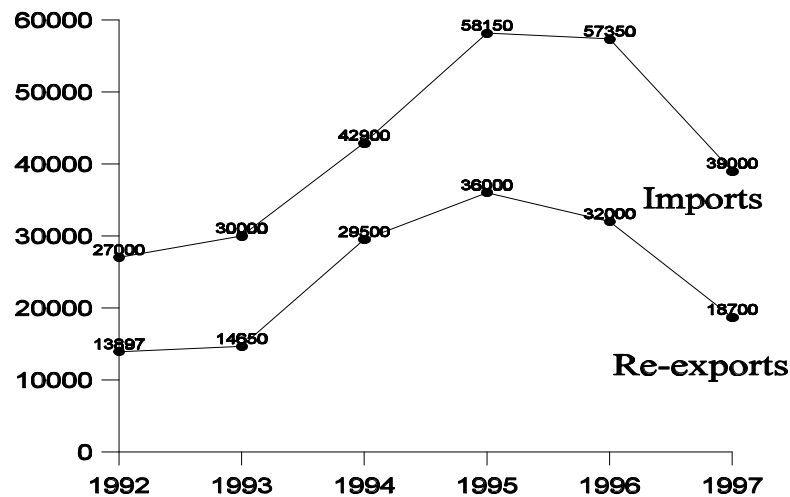
As for the surge in imports and re-exports from 1992 to 1995 and then the sudden drop from 1995 to 1997, there are several reasons:

1992 - 1995: Aggressive push by foreign candy suppliers into China

1995 - 1997: Many companies localize production i.e. Nestle, Kopiko, etc thus reducing import dependency

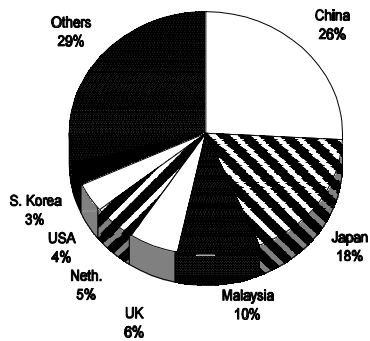
China market demand starts to wane as consumers shift to other first time buys, but also become more price sensitive with worsening economic conditions in China

An over supply and over capacity of local and imported sugar confectionery in China



Source: HKCSD

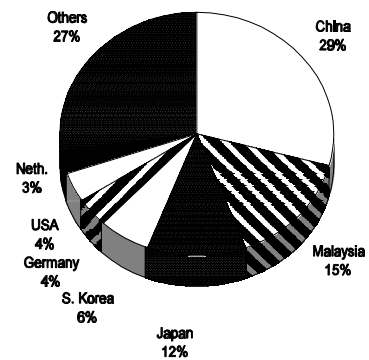
SUGAR CONFECTIONERY

Imports

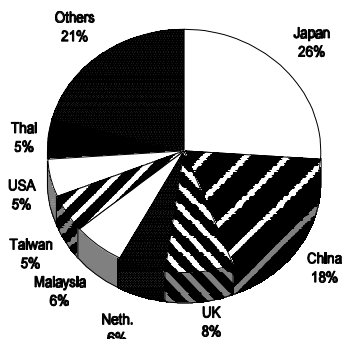
27,250 MT
Imports 1992

China is a major import source though it is mainly re-exported to other countries.

Japan is a traditional supplier of trendy packaging or innovative products.

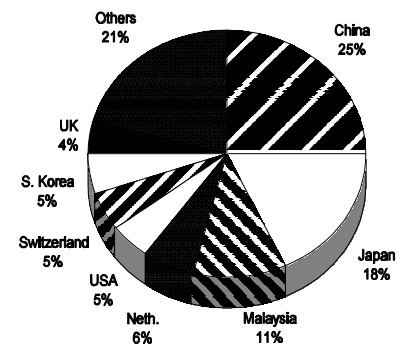


39,000 MT
Imports 1997



HK\$658 million
Imports 1992

7.7 %
AAGR



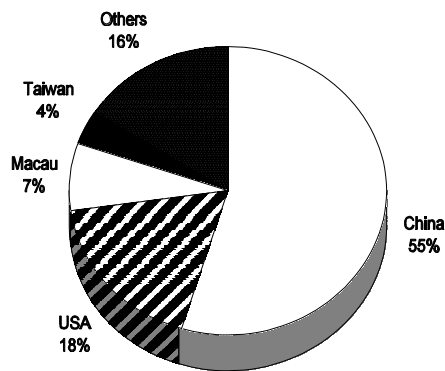
HK\$955 million
Imports 1997

Source: HKCSD

SUGAR CONFECTIONERY

Re-Exports

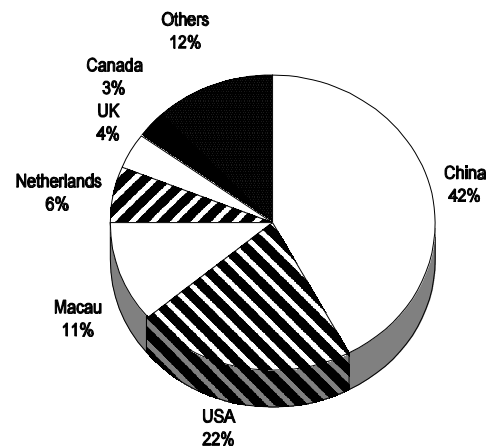
Re-exports are mainly to China or via Macau to China. Re-exports to the USA and Canada have increased over the years catering to the growing needs of consumers having immigrated from Hong Kong, Taiwan and China.



Re-exports 1992
12,297 MT



7 %
AAGR



Re-exports 1997
18,716 MT

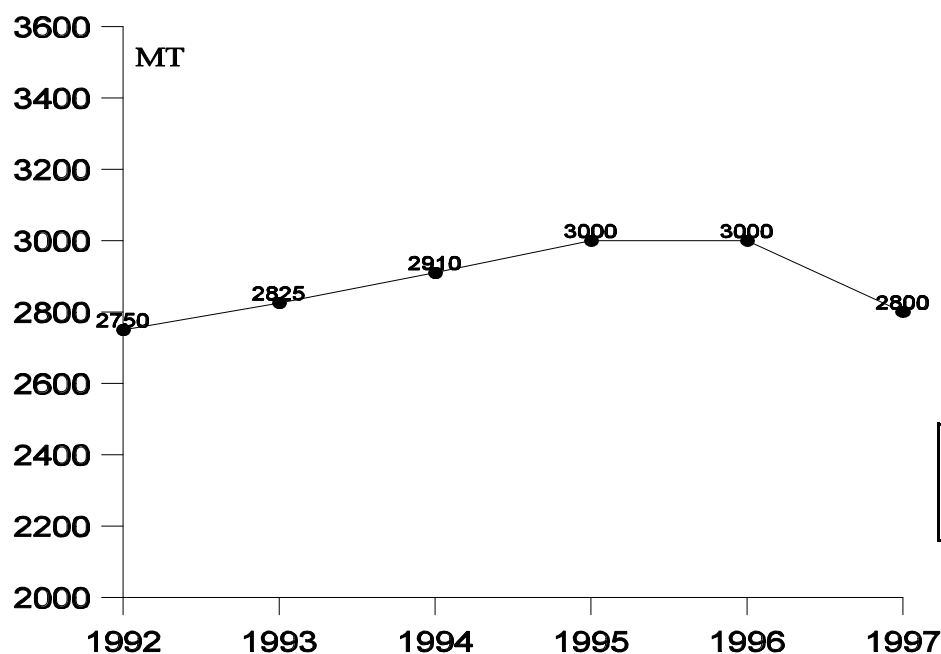
Source: HKCSD

SUGAR CONFECTIONERY

Local Consumption

Local consumption has been static over the past few years and is in decline. There is little movement among the key suppliers. The Hong Kong market is dominated by import branded candy and the situation is highly competitive with a fragmented supply. The benefit to consumers is a wide range of sugar confectionery items from a variety of countries. Competition is intense with high listing fees and a need by suppliers to differentiate products through new products and creative packaging. Japanese suppliers have taken this route, but brands typically become fads and then fade away.

- C Children and teenagers are the main consumers.
- C It should be noted that snacks have been displacing sugar confectionery over the past few years and as a key reason for the stagnation and decline in demand in Hong Kong.



**HK\$280 million
Retail Sales in 1997**

Source: Eastern Strategic Consulting Ltd.

SUGAR CONFECTIONERY

Local Production And Demand

Over the past ten years Hong Kong local producers have been squeezed out of the market due to the heavy competitive pressures exerted by well supported foreign branded items.

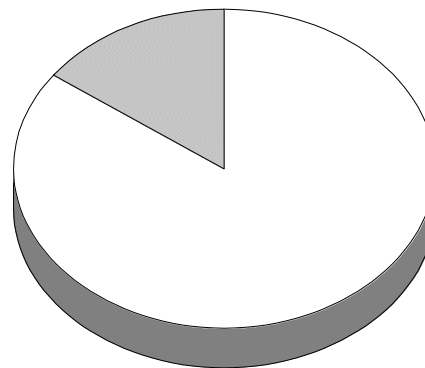
Therefore local production accounts for less than 20% of demand.

Local companies have traditionally catered to the bulk market selling local flavored hard boiled candy to retailers and markets.

Local candy caters to the lower end mass market, typically the older generation and more traditional Chinese.

Most candy is sold during the Chinese New Year season as well as important events such as weddings and funerals.

Local Production Demand
12-15%



Import Demand
85%

A majority of local producers have already moved across the border to China where operating costs are lower, but where greater market opportunity exists.

Garden Candy Factory in Hong Kong with re-packaging operations in China).

Yan Chim Kee Company Traditional Hong Kong candy maker focused on coconut flavored candy, moved Hong Kong operations to China in approximately 1994.

There have been other candy producers, but most are either shut down or have very minor production.

Source: Eastern Strategic Consulting Ltd.

SUGAR CONFECTIONERY

Local Demand - Purchasing Behavior & Seasonality

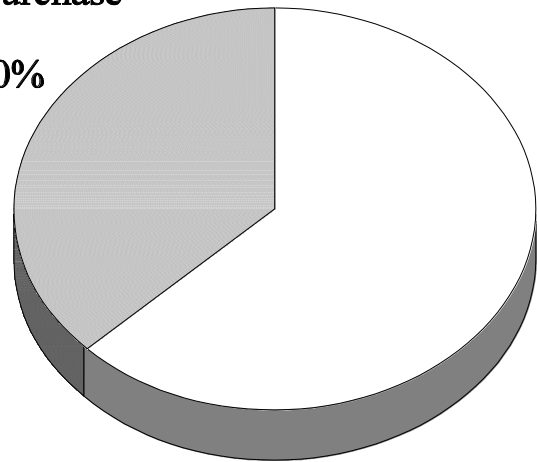
The Hong Kong market is dominated by seasonal / festive time purchases, with over 60% occurring during the Chinese New Year or during special/important occasions.

Impulse purchases are also important, driven by consumers of all ages, but more heavily taken up by children and teenagers. Impulse purchases are consistent throughout the year.

The current and future trend is a gradual decline in gift purchases.

Impulse Purchase

35-40%

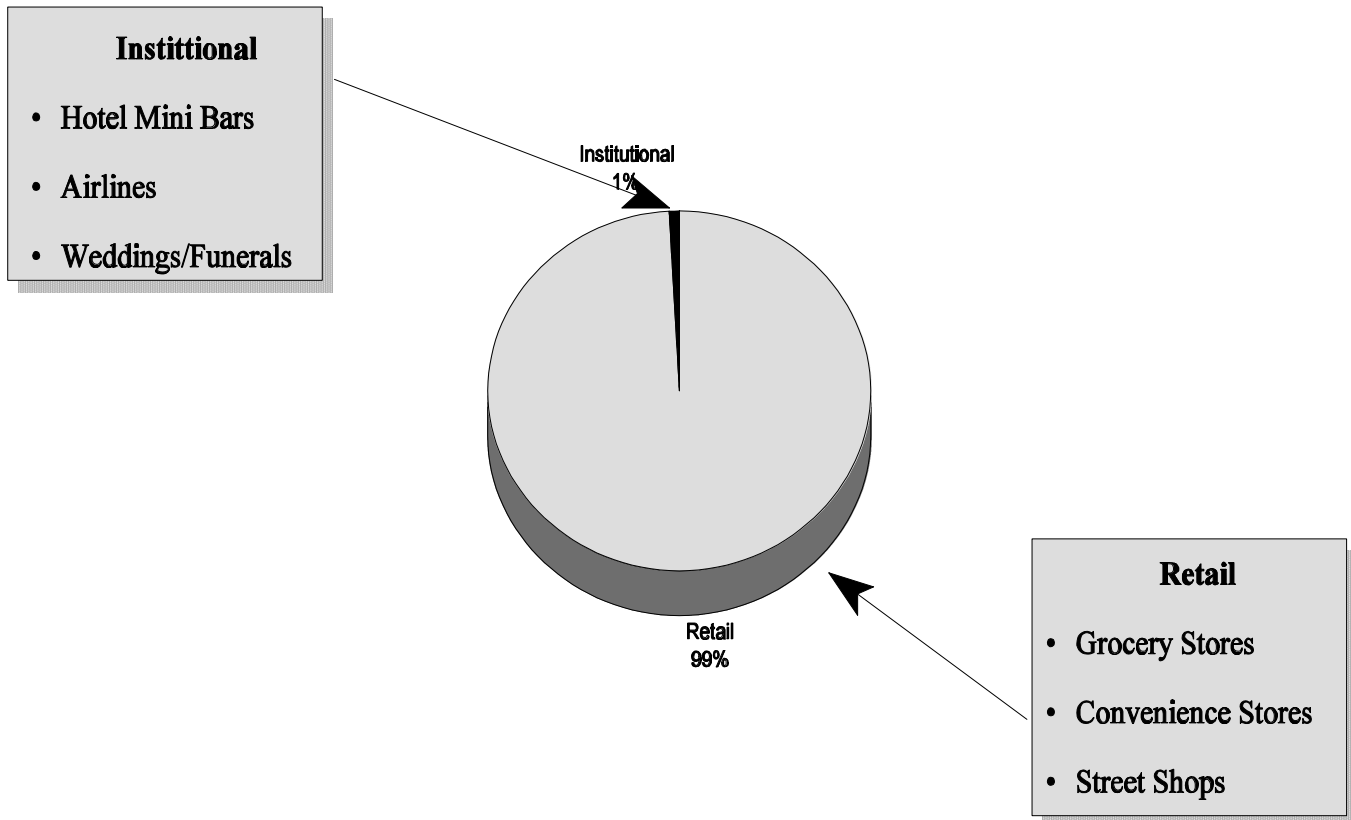


**Seasonal Gift &
Celebration Purchases
(Chinese New Year)**

60-65%

SUGAR CONFECTIONERY

Local Demand - Retail Versus Food Service



SUGAR CONFECTIONERY

Local Distribution

Most major sugar confectionery suppliers have linked up with professional distribution service operation, though a few have relied on developing solid inhouse distribution i.e Nestle ,Warner Lambert and Garden with a diversified product base apart from confectionery items and sizeable volumes. The majority of products are distributed to markets and convenience stores which are predominant in the retail sector.

Distributor	Sugar Confectionery Products
Edward Keller	Kraft / Jacob Suchards
JDH Inchcape	Van Melle
East Asiatic Company (EAC)	Mars / Effem Foods
Four Seas Mercantile	Cadbury , Meiji
Sieber Hegner	Ricola
In-House	Nestle
In-House	Warner Lambert
Inhouse	Garden Candy

SUGAR CONFECTIONERY**Brands, Packaging And Pricing**

Company	Brand	Flavors	Source Country	Packaging	Weight (g)	Price (HK\$)
Van Melle	Mentos	Mint	-	Pillow packs in bag	100g	7.9
		Mint Grape Mixed fruit	Holland	Roll	38g	4
	Fruitella	Strawberry	Holland	Roll	40g	3.5
Storck	Nimmz	Fruit	Germany	Roll	50g	3.5
Nestle	Fruitips	Tropical fruit Blackcurrant	United Kingdom	Roll	39.5g	5
	Frutips	Fruit mix Blackcurrant	United Kingdom	Roll	39.5g	4.6
	Kool	Fruit Mint	Australia	Roll Tin	39.5g 100g	4.60 12.90
	Polo	Mint Sugar free mint	China United Kingdom	Roll Roll	29g 25g	2.20 2.30
	Fox's	Mix fruit, Mint Blackcurrant	Malaysia	Tin	250g	23.7
Warner Lambert	Clorets	Actizol	Thailand	-	-	-
		Sugar free actizol	Canada	-	14g	5.9
	Halls	Menthol Honey lemon	Thailand	Stick	-	-

SUGAR CONFECTIONERY**Brands, Packaging And Pricing**

Company	Brand	Flavors	Source Country	Packaging	Weight (g)	Price (HK\$)
Jacob's Suchards (Kraft Foods)	Sugus	Blackcurrant Mint Strawberry Lemon	France	Roll	48g	3.8
				4-roll pack	72g	18.8
				Tin		
Mars	Skittles	Fruit Wild berry	USA	Box	38g	4
				Sachet	50g	10.8
Ricolla	Swiss	Honey orange Lemon Swiss herb	Switzerland	Box	40g 55g	5.40 8.90
	Mint	Lemon Swiss Herb		Tin	100g	14.5
Chelsea	Chelsea	Butter scotch Coffee Yoghurt	Japan	Bag	45g 125g	4.30 7.00
Fujia Japan	Peko	Milk	Japan	Bag	115g	16
				Tin	30g	10.5

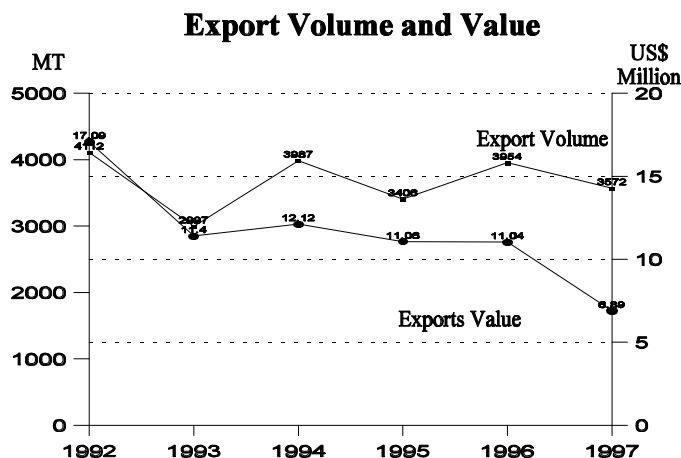
SUGAR CONFECTIONERY**Brands, Packaging And Pricing**

Company	Brand	Flavors	Source Country	Packaging	Weight (g)	Price (HK\$)
Kudasai	-	Lemon / Mix fruit Mix veg. / Lemon	Japan	Bag	55g	7.7
Kanro	Archaic Lemon	Lemon		Bag	100g	9.9
Nokel	Super Lemon	Lemon		Bag		12.9
Sensei	Super Lemon	Lemon		Bag		14.9
Domaco	Herbal	Menthol	Switzerland	Roll	25g	6
Lakeol	Mint	Grapine Cassio	Sweden	Box	24g	6.5
Chupa Chups	S. Mint	Peper mint	Spain	Cassette	8g	8.5
Taverners	Taverners	Coffee Frui	UK	Tin	200g	14.4
Kasugai	Gummy	Grape/Mello n Apple	Japan	Bag	135g	18.9
		Orange/ Strawberry		Bag	135g	12.8
		Lychee		Bag		18.9
		Milk		Bag	135g	14.5
		Milk- Strawberry		Bag	110g	14.5

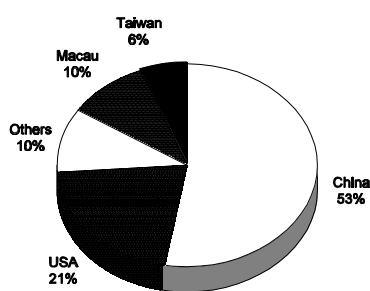
SUGAR CONFECTIONERY**Brands, Packaging And Pricing**

Company	Brand	Flavors	Source Country	Packaging	Weight (g)	Price (HK\$)
Garden	Garden Candy	Orange Blackcurrant	HK	Bag	150g	5.8
Yan Chim Kee	Yan's Coconut	Coconut	China	Bag	130g	12.2
Guan Sheng Yuan	Peanut Nougat	Peanut	China (Shenzhen)	Bag	227g	6.5
	White Rabbit	Milk	China (Shenzhen)	Roll Bag	34g 227g	2.10 6.80
-	Golden Plum	Plum	China		110g	12.5
Handrow	Prune	Prune			250g	11.4
Boshi	-	-			160g	6.2
Ferrero	Tic Tac	Mint Orange Fruit	Australia	Cassette	15g	2.9
Kalfany	Cola	Cola lemon Cola	Germany	Roll	30g	3.2
Henry Goodies	Fruit	Mixed fruit	UK	Tin	200g	9.9
Four Seas	Ice Mint	Mint / Orange/ Apple	-	-	6.5g	11.5
		Blackcurrant / Peppermint / mint	-	-	8g	8.5
Rozz	Kiss Up	Mint	Indonesia	Tin	200g	16.3

SUGAR CONFECTIONERY

Exports Volume And Value

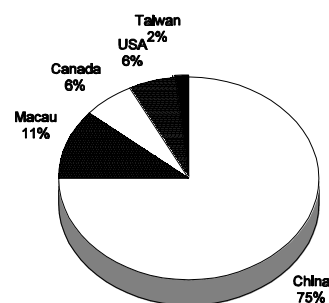
Export demand has gradually fallen due to the inability of Hong Kong local producers to compete in Hong Kong or in export markets and also a consolidation of the local production base. Garden Candy remains the last major producer exporting a majority of production to China for re-packaging and sales in the China market. The value of Hong Kong exports has drastically declined and it is due to exporters under-declaring value in order to avoid the high import cost into China. The HKTSD export figures are significantly higher than actual exports and include re-export figures for imports that are repackaged or simply re-exported.



4,112 MT
Exports Destination 1992
HK\$132 million

-3% AAGR

-20% AAGR



3,572 MT
Exports Destination 1997
HK\$53.5 million

Source: HKCSD

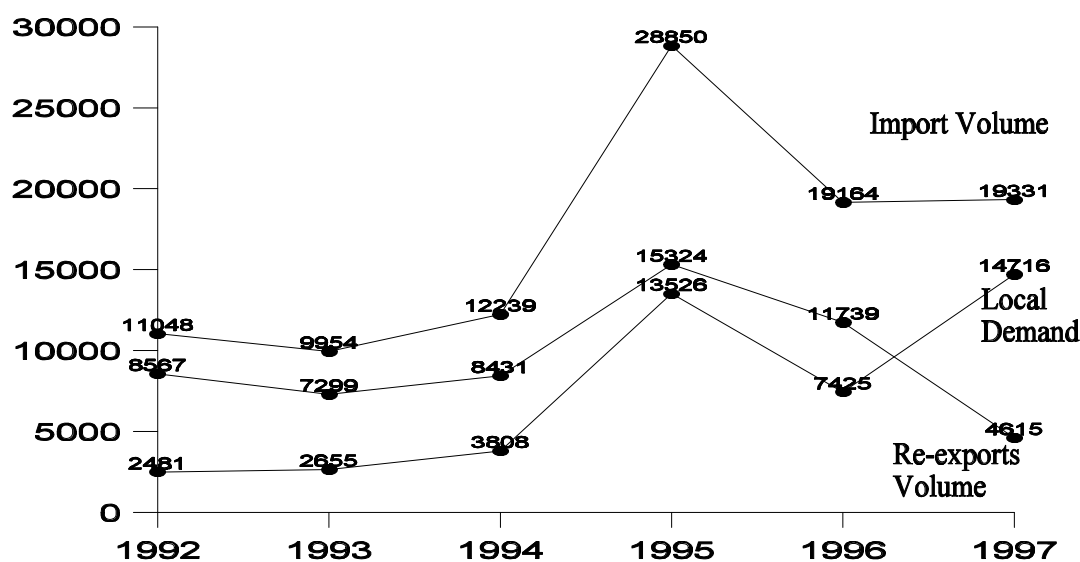
CHEWING GUM

Imports

Imports of chewing gum have been significant for Hong Kong, but driven mainly by the re-export market to China. The local demand figures based on calculations of Hong Kong Trade and Statistics figures (Imports minus re-exports) provide highly over inflated/ unreliable estimates.

It was in 1994 that the imports began a steep ascent and, though falling in 1995, remained huge to the present. This surge in imports has been driven by Lotte of South Korea and Japan in developing the China market. It should be noted that significant volumes continue to reach China from South Korea but are increasingly by passing Hong Kong and entering through Shantou in Guangdong province.

Chewing Gum Imports - Re-exports Volume (MT) 1992-1997



Source: HKCSD

CHEWING GUM

Import Country Sources

South Korea imports are the most significant with almost all supply being re-exported to China. The main South Korean suppliers are Lyye and Haitai.

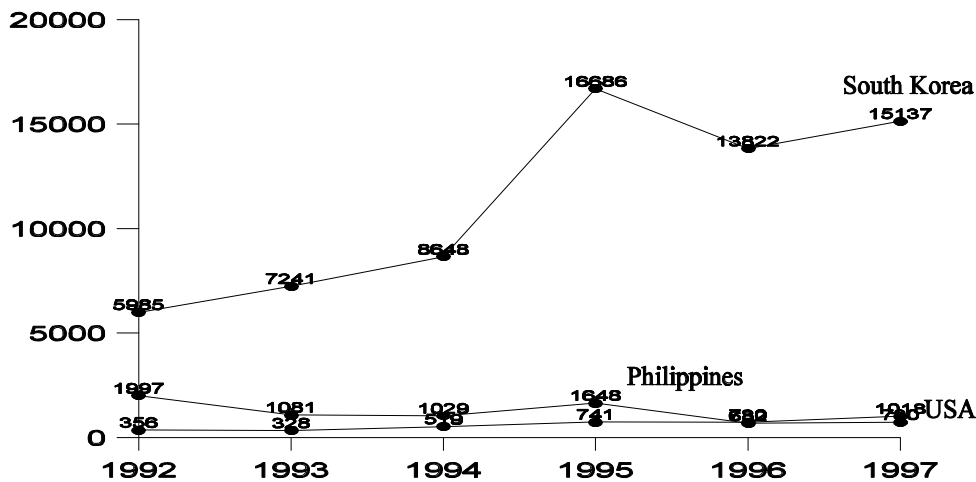
Supply from the USA includes famous brands such as Extra and Bubble Yum.

Wrigleys has a plant in the Philippines which it uses to supply the Hong Kong market. (Wrigleys does have a China factory in Guangdong province, but it is exclusively for the China market and product is not supplied to the Hong Kong market.

Warner Lambert had leveraged its Thailand production to support both the Hong Kong and China market, but with a new facility in Guangdong, the Thai plant supports only the Hong Kong market.

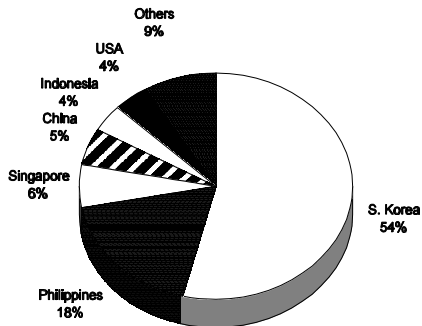
There are many functional brands of chewing gum imported in Hong Kong which is a strong indication of the mature consumer market. i.e. clorets), Extra and Trident (Both sugar free).

Chewing Gum Imports Volume by Country 1992-1997

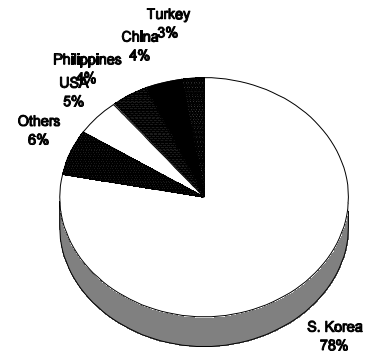


Source: HKCSD

CHEWING GUM

Import Country Sources

12 %
AAGR

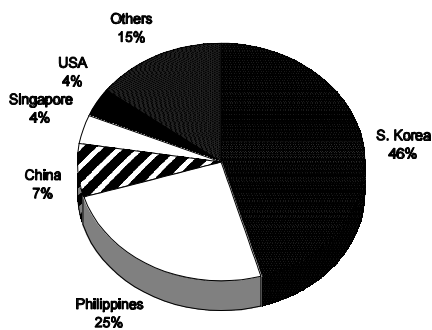


11,048 MT
Imports 1992

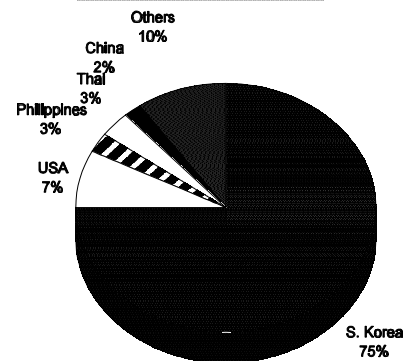
Import growth has been steady at rates comparable to that of mainland China GDP.

This high growth is not an indication of Hong Kong demand growth which has been flat.

39,000 MT
Imports 1997



14 %
AAGR



Imports 1992
HK\$239 million

Imports 1997
HK\$955 million

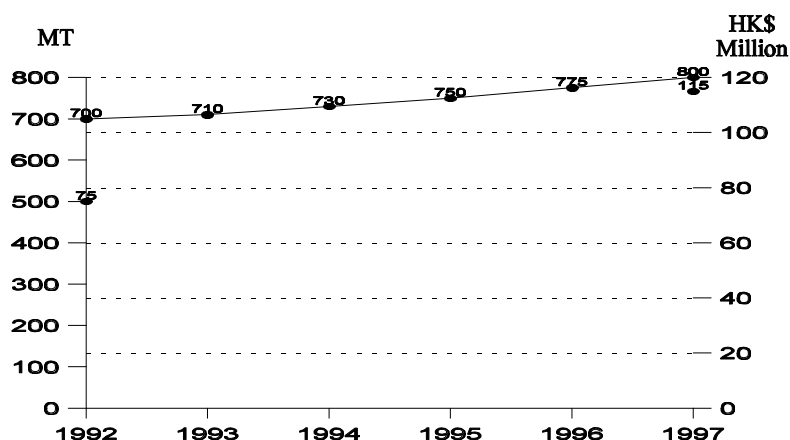
Source: HKCSD

CHEWING GUM

Local demand

Historical growth in volume terms has been slow at less than 3% AAGR since 1992.

In terms of value, growth has been significant due to the surge in demand for sugar free chewing gum products since late 1993. Value growth overall since 1992 has been 9% AAGR.



Hong Kong demand has been flat in terms of volume, with little growth in terms of value.

There has been a definite shift towards higher value chewing gum such as sugar free products and other functional products.

In terms of country supply, American branded products dominate the market with an overwhelming share of more than 90%.

Supply from Japan is sophisticated in terms of either functionality or packaging or both. Products include sugar free gum and coffee caffeine loaded gum.

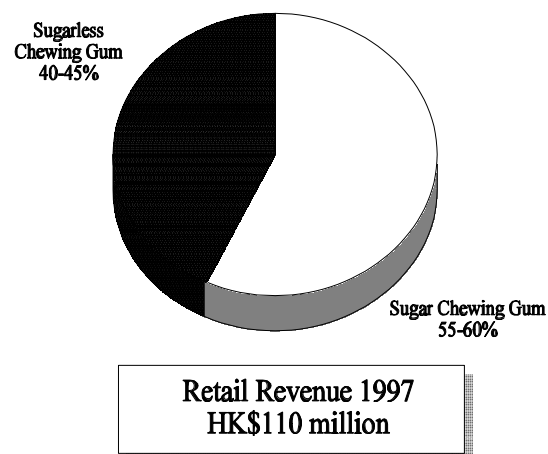
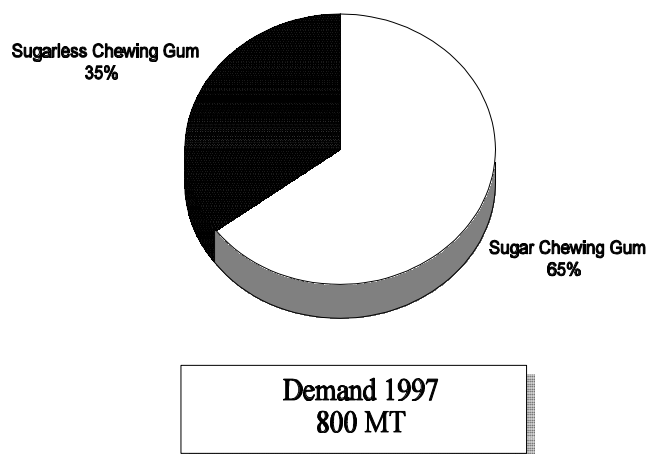
Sugar free breath freshening gum comes in slick packaging similar in color patterns and design to that of a cigarette package.

CHEWING GUM

Sugar Versus Sugar Free Chewing Gum

In late 1993 and early 1994 Wrigleys and Warner Lambert respectively introduced sugar free chewing gum products.

- C Growth has been explosive within this segment driven by greater consumer awareness about dental health, purchased by consumers of all age groups.
- C The growth in volume has been due to the displacement of traditional sugar based chewing gum. In value terms, sugarless chewing gum is high value being approximately double in retail pricing on a per weight basis.
- C Currently sugar free products comprise 50% of the market in value terms.
- C US companies dominate this market.



Source: Eastern Strategic Consulting Ltd.

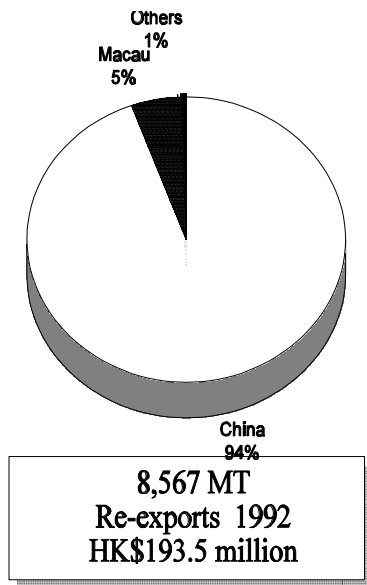
CHEWING GUM**Brands, Packaging And Pricing**

Company	Brand	Flavors	Source Country	Packaging	Weight (g)	Price (HK\$)
Wrigleys	Wrigleys	Double mint Spearmint Juicy Fruit	Philippines	Stick pack	15g	1.7
	Extra	Spearmint Winter fresh Peppermint	USA	Stick pack	13.5g 40.5g	2.80 7.50
Warner Lambert	Clorets	Actizol Menthol	Thailand	Box Pellets	-	4.3
	Adam's Chicets	Mint/Lemon		Box	-	3.3
	Chicets	Apple		Stick pack	13.5g	3.3
	Clorets	Actizol Menthol		Stick pack		4.3
	Trident	Spearmint / Pepper mint / Fruit	Belgium	Stick pieces	8.5g	4
Nabisco	Bubble Yum	Grape, lime, water melon	USA	Pack	36g	3.9
Lotte	Appa Cool	Menthol	Japan	Stick pack	8g	4
	Bud Up	Citrus		Paper wrap pieces	31.50g	4
	Coffee Gum Beans	Coffee		Box	25g	6.5
Hitshler	Jetties	Special Lemon	Germany	Box	25g	8

CHEWING GUM

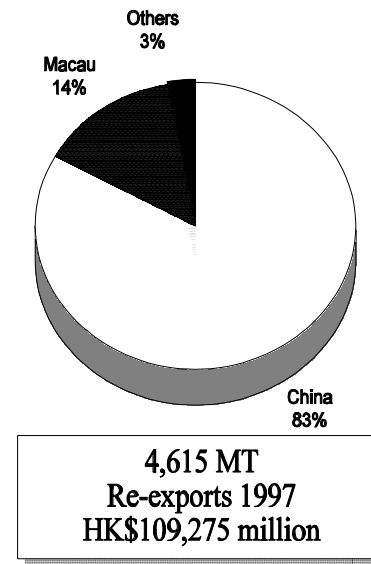
Re-exports

Re-exports have dived during 1997, though South Korean imports remain very high. The South Korean products are being re-exported to China but under a different category such as sundry or canned food items. They are brought into the country through “grey channels”. Items are usually under declared.



-13% AAGR

-12% AAGR



Source: HKCSD

RULES & REGULATIONS

Hong Kong's food labelling laws, in effect since 9 August 1987, established requirements for the marketing and labelling of prepackaged foods. Prepacked foods are defined as those foods for which the contents cannot be altered without opening or changing the packaging and for which the food is ready for presentation to the ultimate consumer or catering establishments as a single food item.

Product labelling must contain the following information: name, ingredients -- in descending order of weight or volume, shelf life, conditions of storage and use, weight and volume, and name and address of manufacturer or packer. Minimum product durability must be indicated with a phrase such as "Best Before", "Sell By" or "Consume By" in both English and Chinese. Furthermore, dates must be expressed in terms of day, month, year in both Chinese and English unless Arabic numbers are used. If special storage conditions or usage instructions apply, explanatory statements must be included on the product's label.

Complete Chinese language labelling is not required if the information is provided in full in English; however, at a minimum, the package must state in Chinese "Consume before date stamped on package". If both languages are used, then the product name and ingredients must appear in both languages.

Select products - individually wrapped confectionary products and preserved fruits not enclosed in any further packaging intended for sale as single items -- and prepackaged food for sale at catering establishments for immediate consumption are exempt from labelling requirements. However, any ingredients labelling which does appear must conform with the regulations.

The importation of confectionery products into Hong Kong is governed by Food and Drugs of the Public Health and Municipal Services Ordinance Cap. 132 and subsidiary legislation which are enforced by the Hygiene Division of the Department of Health.

RECOMMENDATIONS

- # Limited opportunities exist in the Chocolate, sugar confectionery, and chewing gum markets in Hong Kong.
- # Hong Kong's Chocolate market is by far the most developed with intense competition at all levels and sectors with little room for new players. New entrants must be able to differentiate their products, but the costs will be high and difficult to maintain in the long term in such a small market.
 - C US chocolate companies marginally lead the market dominating the retail mass market segment.
 - C As for the high end of the retail market, European products dominate. Toblerone, also a European product, though the brand is owned by a US company, is one of few US brands competitive in this sector.
 - C The premium end sector is driven by local producers creating specialty premium priced chocolates sold to the food service sector and through inhouse retail shops. This sector has been the highest growth in value and volume terms, but has reached saturation in the market place with numerous local competitors.
- # The sugar confectionery market is declining and is characterized by a multitude of products, brands and quality. Overall, the market is saturated and has come under pressure from other competing areas such as snacks.
- # The Chewing Gum sector is dominated by US suppliers and though the demand in volume terms has been slow, the demand in value terms has been very high.
 - C Sugar free chewing gums are displacing existing sugar containing gum at a high rate. This market shift has been initiated and is dominated by Wrigley's and Warner Lambert (The functional chewing gums sector has been declining).
- # Overall US companies have captured and control the chewing gum market.
- # The chocolate market is stagnant and mature, though US companies have not yet seriously addressed the premium branded sector which is dominated by Europeans. An acquisition of a local specialty chocolate producer is a strategic consideration as this segment is of highest value.
- # Sugar confectionery segment is declining and the relatively small market remains fragmented and of lowest overall value. China is a more strategic option.

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36/F Manulife Tower
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North Point, Hong Kong
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Park'n Shop Ltd

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Fo Tan, Shatin
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Fax: (852) 2602-2914

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E-Mail: ATOHongKong@fas.usda.gov
Internet Homepage: <http://www.usconsulate.org.hk/ato>

List of Important Government Web Sites and E-Mail Addresses

Department	Web Site	E-Mail Address
Census and Statistics Department	http://www.info.gov.hk/censtatd/	genenq@censtatd.gcn.gov.hk
Company Registry	http://www.info.gov.hk/cr/	crenq@cr.gcn.gov.hk
Consumer Council	http://www.consumer.org.hk	cc@consumer.org.hk
Financial Secretary's Office Business and Services Promotion Unit	http://www.info.gov.hk/bspu/	bspuenq@bspu.gcn.gov.hk
Economic Services Bureau	http://www.info.gov.hk/esb	esbuser@esb.gov.hk
Trade and Industry Bureau	http://www.info.gov.hk/tib/	--
Department of Health Headquarters Clinical Genetic Service Government Virus Unit Special Preventive Program	http://www.info.gov.hk/dh/index.htm -- -- http://www.info.gov.hk/health/aids	dhenq@dh.gcn.gov.hk cgs@hk.super.net wllim@hk.super.net aids@health.gcn.gov.hk
Industry Department	http://www.info.gov.hk/id	industry@id.gcn.gov.hk
Trade Department	http://www/info.gov.hk/trade	dcsn@trade.gcn.gov.hk
Hong Kong Trade Development Council	http://www.tdc.org.hk	hktdc@tdc.org.hk
Foreign Agricultural Service, USDA	http://www.fas.usda.gov	--
Census and Statistics Department	http://www.info.gov.hk/censtatd/	genenq@censtatd.gcn.gov.hk
Custom and Excise Department	http://www.info.gov.hk/customs/	customeq@customs.gcn.gov.hk